

1923

MAKE TORONTO GROW

REPORT

ON

TAX EXEMPTION

BY-LAW

By ARTHUR W. ROEBUCK, Barrister,
610 Federal Building, Toronto.

Member of the City Council's Special Committee on Taxation,
giving clear, interesting and comprehensive
explanation of the proposal.

GREAT OPPORTUNITY

to Vote on January 1st in favor of By-law to exempt
Improvements, Business and Incomes from Taxation.

Discourage holding factory and
home sites idle.

Encourage Building.

Make Business pay.

Give More Employment.

Lower Taxes on Homes.

Better Times and Cheaper Living.

MAKE TORONTO GROW

Vote "YES" on the Tax Exemption By-law.

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HIS WORSHIP THE MAYOR AND MEMBERS
OF THE CITY COUNCIL,
Toronto, Ont.

Gentlemen:—

In February last the City Council of Toronto appointed a Committee to examine into and report upon a proposal to exempt improvements, income and business assessments from taxation at the rate of 10 per cent. per annum until wholly exempt at the end of ten years time, the deficiency in revenue to be made up by a proportionate increase in taxes on land values. I have the honour to be a member of your Committee, and as directed by you have made an "exhaustive study" of the question.

The question came before Council in the first instance in the form of a petition signed by some twenty thousand property owners, and it has recently been referred by Council to the Ratepayers in the form of a by-law for their decision at the approaching January election. On receiving the assent of the electorate qualified to vote on money by-laws, the by-law will, in accordance with the Municipal Tax Exemption Act of 1920, go into effect.

Your Committee held a number of public meetings at which evidence was given by well informed citizens of this and other cities, including both Pittsburgh and New York, where more or less similar exemption measures are in force, and considerable data has been accumulated. The proposition as stated by the witnesses and clearly explained may be stated in a few words as follows:

SUBSTANCE OF THE PROPOSAL

Taxes, when levied on buildings and improvements, are added by the owners to the price at which they are rented, thus increasing the cost of living and making it more difficult for business men to compete in manufacture, trade or business in the city. Similarly the business tax is added to the price of the goods produced or carried and interferes with the City's commercial success. While something is to be said in defence of an income tax, still its general tendency is to lower the returns of industry and capital, and to that extent to discourage progress. This effect is particularly marked as incomes are twice taxed, first by the Dominion and secondly by the City.

The advocates of the measure accordingly contend with great force that **were these taxes abolished houses would be cheaper to own or rent.** Manufacture could be carried on that much more cheaply,

and trade and business could be conducted with a better margin and at a lower price, thus giving the city and its commercial interests a marked and continuing advantage over other places less wisely governed, while the absence of a double tax on incomes would attract capital and increase the retained profits of industry and investment.

According to Assessment Department figures, nearly one-fifth of the city's frontages are of vacant property. Of a total frontage of about five million feet, as much as 990,732 feet is wholly vacant and unused, or 187½ miles of valuable but idle land, and in addition, there is much partially used land. It is obvious therefore, that there is in the city much room for expansion and development, but these unused or partially used lands are held at high prices, frequently at prices higher than that at which they can be profitably used. Hence the alternatives of unprofitable business, or checked development, with its attendant unemployment and business stagnation. **Taxes upon land values make it more difficult to hold land out of use, and therefore assist in opening the way for progress.**

The public activities of the city, such as the construction of roads and bridges, sewers and waterworks, street cars, electric light and power, schools and libraries, police and fire protection, together with popular activities, are the direct cause of land values. Where such services are efficient and population is great, land becomes desirable and normal land values are correspondingly high. **It is, therefore, equitable that land which has been given value by the city should contribute correspondingly to the city's expenses.**

In a word, the removal of taxes from improvements, business and incomes would promote the acquiring of homes and the carrying on of business, while the increase in the rate of taxation upon land values would tend to clear the way for the residential and business progress which would result from the advantage of untaxed industry. Toronto would enter upon an era of prosperity, employment and expansion.

HOMES WOULD BENEFIT

Toronto is a city of homes, and the effect of the exemption in lowering the taxes of the home owners is of the very greatest importance. With few exceptions houses are assessed for considerably more than the land upon which they are built. In cases where the house is assessed at six-tenths of the total assessment of house and land, the tax payer would enjoy a reduction in taxes of 6 per cent.; seven-tenths, a reduction of 30 per cent.; eight-tenths, a reduction of 53 per cent.; and nine-tenths a reduction of 80 per cent. As a rule, houses are assessed at two, three and four times the assessment of the land upon which they stand. This applies generally to workmen's houses, except, it may be,

to the veriest shacks, or to low-priced homes on valuable down-town property, and in all cases with the comparatively few exceptions mentioned substantial reductions in taxation would result.

The same principle applies to all buildings, stores, factories, or offices. Where the building assessment amounts to 60 per cent. or more, of the total assessment of land and buildings, a reduction in taxation would result.

It may be stated as a general proposition that in all cases where land is put by the owner to effective use, his taxes would be reduced, and only in cases where land is unused or only partially used would they be increased. This is scientific, for the tendency would be to encourage the normal economic employment of the city's natural resources.

NO REVENUE DIFFICULTY

It is natural that some should be apprehensive when a change of any kind is proposed, and Assessment Commissioner Forman, while he favours the exemption of $33\frac{1}{3}$ per cent. of buildings and improvements, fears that the full measure would result in shortage of revenue. In this connection it should be emphasized that the proposed change is to be adopted gradually, spread over a period of ten years, and the Act specially provides that the City may at any time retrace its steps. There is, therefore, absolutely no danger in this connection. Mr. Forman's anticipated difficulty—should it ever materialize—is a long time distant; but in reality **the facts do not warrant any apprehension on this account. Taxes are not paid by either land or houses, but by men, and assessments are but the measure of the amount the individual shall pay. The shifting of the burden in the manner proposed would increase rather than decrease the city's tax paying power.**

In this connection, it is useful to observe the very great revenue producing power of Toronto's land. Such revenue may be divided into two broad classes, that which goes to the owner and is called rent, and that which goes to the city and is called taxes. The sum total of land revenue which goes to the city is approximately ten million dollars per year. That portion which goes to the owner, the Assessment Department under-values at \$338,352,921, or on a basis of 6 per cent. per annum, approximately twenty millions per year. The revenue producing power of Toronto's land is accordingly over thirty millions:—

In taxes at 30 mills.....	10,150,577
In rent at 6% on a low assessed value.....	20,301,175

Total..... 30,451,752

The city last year collected \$24,332,538 on all classes of assessment, of which about ten millions came from the thirty millions of the city's

annual total land value. Obviously, the full twenty-four millions might be taken from the thirty million dollar fund and still leave six millions revenue to the owners.

As a matter of fact, it would leave very much more than six millions, for the city's land is assessed for much less than it is actually worth. This applies particularly to the very valuable down-town sites, where the bulk of the increases would take place. So that the revenue remaining to the owner is estimated at from fifteen to twenty millions annually.

ADVANTAGES TO OFFSET COST

Moreover, the increases, where they occurred, would be accompanied by the great advantage of tax-free business and improvements. The untaxing of industry by a scientific system of taxation would make Toronto a more desirable place in which to live and do business, a fact which would be reflected markedly in increased value of land. It is probable that the advantages of the change would quite offset the increased burden in the case of normally used lands.

The effect of land value taxation is of course most noticeably felt in the case of vacant or unused land, but even so the owners of existing subdivisions have no cause for uneasiness. The by-law will take more than ten years to come fully into effect, and the building activity which will follow the promised exemption would result in the early use of these particular lands. In the future, however, the tendency would be against the speculative holding of large tracts surrounding the city at high or prohibitive prices, and a natural and unobstructed expansion would result—a splendid thing for the building trades.

THE DOUBLE INCOME TAX

Assessment Commissioner Forman is much concerned lest the workers and business men of Toronto find it unnecessary to longer bear the burden of a double income tax, one to the City and the other to the Dominion Government.

The sole reason advanced in favor of taxing incomes is the alleged ability of the citizens to pay, a fact which may be doubted by many of those reached. **The land value tax is, however, based upon a better principle, that of payment to the city for services rendered in making land valuable.** The Hydro and Waterworks principle of "service at cost" may well be applied to the benefits of Government generally. When the city has collected its bills for services rendered to land owners and others it will be time enough to penalize capital, industry and activity on the principle of "ability to pay."

Mr. Forman fails to distinguish between earned and unearned income. **If it comes from manufacturing, trade, or business, or**

professional or other work, and these activities are desired, it is good sense not to discourage or drive them away by taxation, but rather to attract them to the city by exemption from taxation. If, however, the income is derived from land holdings made valuable by public activities, the income will be tapped at its source by the proposed land value tax.

THE BUSINESS TAX

The business tax is, I submit, even more objectionable than the income tax, for it favors those who operate in shacks to the disadvantage of competitors in more respectable surroundings. It tends to deplete the already narrow margin of business profit. Mr. J. H. L. Patterson, a prominent type-founder of this City, stated to the Committee that forty per cent. of Toronto's printing plants were idle. **The abolition of the business tax, he said, would materially assist in re-establishing the industry.**

Mr. Forman is able to find objections in the fact that hotels, apartment houses and practically all better class residences would benefit by reduction in taxes. Free competition must result in the passing on of this benefit to the boarder or tenant.

Would it not be well if living costs were reduced?

SOME GROUNDLESS DOUBTS

Partisan opponents of any measure no matter how good, find talking points in which to voice opposition. It is noted that according to present assessment the Bell Telephone Company and the Consumers Gas Company will benefit under the proposed by-law. The fact is, however, that the rates of the former are controlled by the Railway Board at what is fair in view of the cost of operation; and the Gas Company is by law limited to a ten per cent. profit. **The measure should accordingly result in lower telephone and gas rates.**

It is also stated that the adoption of the proposed by-law would automatically repeal the present partial exemption on a graded scale of houses assessed at \$4,000.00 or under. Were this the case, the new measure would very soon supply the place of the old, but it is not the case. A careful reading of the law makes perfectly clear that the Acts would apply concurrently.

Much will no doubt be made of the suggestion that the measure may interfere with the City's borrowing powers on the ground that a special City of Toronto Act of 1889 authorizes the issue of City debentures to the amount of twelve and one-half per cent. of the first hundred millions of the assessed value of the whole rateable property of the City and eight per cent. beyond that sum. The interpretation of the Act is open

to argument, but **should any difficulty exist because of the wording the very maximum would be the necessity for a slight amendment, for which the gradual adoption of the exemption gives ample time.**

EXPERIENCE IN THE WEST

While commenting favourably on the Winnipeg plan of exempting improvements to thirty-three and one third per cent. of their assessed values, Mr. Forman contends that the confining of taxes to land values only in certain cities in the West has resulted in difficulties in civic financing. In support of this statement he refers to Edmonton, Calgary, Regina, Saskatoon, Vancouver and Victoria, all of which have suffered from the disastrous effects of a bad land boom and equally extraordinary civic finance. **These cities found no difficulty in normal times in getting their whole revenue from land values. During these years, the beneficial effect upon building and enterprise of the untaxing of industries was very marked and generally conceded.** When their insane land boom broke down, however, these municipalities found themselves saddled with heavy debts for the supplying of city conveniences to hundreds of miles of farm lands. They were, in addition, hampered by their general assessment law, which restricted them to a twenty mill rate, and by the further fact that they could not legally sell land for taxes until three years after it fell in arrears, nor give a deed until another three years had elapsed, a total period of six years. Under such circumstances, difficulties in financing are inevitable under any system of taxation.

Mr. Forman quotes with approval the statement that the real estate men "are now the most bitter in opposition to the single land tax, as they are now caught with large blocks of non-revenue producing land, for which they paid big prices but which they cannot sell at any price, and upon which they have to pay heavy taxes. They are now in the forefront of those who would reimpose taxes on improvements."

It is conceded that the taxation of land values is neither devised nor advocated in the interests of non-revenue producing land speculators.

WEST IS STILL SINGLE TAX

And yet in spite of its boom collapse, and its artificial restrictions perhaps purposely maintained, and its army of real estate propagandists in the forefront of the movement to escape taxation at the expense of industry, Edmonton still exempts 40 per cent. of her improvements, Calgary exempts 50 per cent., Regina 70 per cent., Saskatoon 55 per cent., Vancouver 50 per cent., and Victoria $66\frac{2}{3}$ per cent. It will take Toronto from four to six years to reach the place to which the forefront propagandists in the real estate game have forced these cities to recede.

In the great majority of the municipalities of the West, however, no change in system has taken place. From the Western border of Ontario to the Pacific Coast every rural municipality without exception raises its taxes entirely from land values, wholly exempting its improvements. **Prince Albert which, according to Mr. J. R. Brown, did not exempt improvements went into the hands of receivers.**

SUCCESS IN NEW YORK

The markedly beneficial effect of the exemption of improvements in the cities of Pittsburgh and New York was laid before the Committee personally in evidence by representatives of these municipalities.

According to Mr. James R. Brown of New York, that city in 1920 passed a law exempting new houses and apartments for a period of ten years to the extent of \$5,000 each. In the year preceding the exemption new houses were built to accommodate 14,000 families; in the first 26 months following the exemption new accommodation was built for 218,000 families. The rate of building was thus increased by about seven times. According to the New York World, \$244,973,000 of tax exemption houses were built in the first two years of the exemption. The newspapers all support the measure, and the time of its application has been extended annually for the past three years. This year a Judge of first instance declared the law to be unconstitutional, and a building programme involving the expenditure of \$400,000,000 immediately stopped. The Judge's decision was reversed on appeal, and the building activities immediately recommenced.

PROGRESS IN PITTSBURGH

The cities of Pittsburgh and Scranton have no business, personality or income taxes, raising their local revenue from the assessment on land and buildings. In 1915 the legislature of Pennsylvania passed what is known as the graded tax law, under the authority of which both Pittsburgh and Scranton reduced their taxes on buildings by 10 per cent. each third year until the rate on buildings is 50 per cent. that charged on land. The graded tax law of Pittsburgh and Scranton is in its essentials similar to that proposed for Toronto. The 10 per cent. reductions come every third year, instead of annually as proposed here, but the measure went into effect ten years ago and at present 40 per cent. of building values is exempt.

According to Mr. Harry H. Willock, Secretary-Treasurer of the Waverley Oil Works of that city, who personally appeared before your Committee, the measure has had an effect even greater than might have been expected. It has had a certain psychological effect, for the measure is now so popular with all business men and business organizations and with the voters generally that it is confidently expected that **the 10**

per cent. exemptions will be continued until buildings are entirely exempt, and it is known that the system has come to stay. Tracts of land formerly held vacant have accordingly been offered for sale to builders and home owners. As a consequence, Pittsburgh has been building more per capita increase than any other city in the United States. From 1914 to 1920, inclusive, she has exceeded her competitive cities as follows:—25 per cent. more than New York, 57% more than St. Louis, 67% more than Philadelphia, 66% more than Cleveland, 80% more than Buffalo, 186% more than Detroit and 238% more than Baltimore. The price of vacant land has not been unduly depressed, though more readily purchasable, and notwithstanding the increase in building there is no tendency toward land booming. So marked has been the beneficial effect that the allied Board of Trade, representing some 10,000 business men are behind the new law as a unit, as are also the members of the Building Trades Council, and many other organizations. Writing under date of August 13th, 1923. Mr. P. R. Williams, a member of the Pittsburgh Board of Assessors, says:

“We are convinced that the Pittsburgh Tax Plan is based on sound principles, and among the principle benefits that have followed its adoption we might cite the following:

1. It has **reduced the taxes of the average home owner** whose house represents a valuation as great as or greater than his land. It is estimated that at least 70,000 home owners have received a direct pecuniary benefit from the operations of the law.

2. It has **encouraged building operations** by offering the inducement of lower taxes to those who improve their property. A comparison with other large cities recently made shows that in the number of building permits per 1,000 of increased population from 1914 to 1920, inclusive, Pittsburgh excelled by substantial percentages her competing cities of New York, St. Louis, Philadelphia, Cleveland, Buffalo, Detroit and Baltimore. The year 1922 witnessed a very marked stimulation of building activity over 5,900 building permits being issued in this city.

3. It has **discouraged land speculation** because the holder of vacant or inadequately improved lands pays proportionately higher tax through the automatic shifting of the burden of taxation to the land. Since this law went into effect, the land policy of some of the larger estates in this city has been decidedly altered and there has been a noticeable disposition to sell rather than to hold land idle.”

Mr. T. C. McMahon, the Chairman of the Pittsburgh Board of Assessors, also strongly approves the measure, as does also the City Assessor of Scranton.

Sydney, New South Wales, a city of 750,000 people, raises all local rates by the taxation of land values, as do nearly all other municipalities of that country. According to Mr. T. A. Coughlan, in a letter written when Agent General of that country, the taxation of unimproved values has not resulted in a slump in the value of land. He says:

“Land owners have been wise enough to see that it is only unproductive land that feels the burden of the tax, and there is a general agreement that the first effect of placing rates on land has been to force much unproductive land into use. Another direct effect is that the exemption of improvements from taxation has led to the expenditure of considerable sums in building and the beautifying of the land.”

The four chief cities of New Zealand raise their taxes from land values only with entirely satisfactory results.

OPPORTUNE FOR TORONTO

Experience elsewhere in the exemption of improvements and industry is such as to favourably commend the proposed by-law to the citizens of Toronto, and the present would appear to be an opportune time to make the change. In a recent speech Mr. Home Smith, Chairman of the Harbour Board, stated that the building permits issued in 1921 for factory construction totalled only \$311,000, and for 1922 the still more “pitiable” figure of \$289,009. This comparative stagnation he rightly attributed to the fact that vacant factory sites are held by their owners at prohibitive prices of from \$20,000 to \$40,000 per acre, prices which the management of prospective industries regarded as more than the advantages of doing business in Toronto is worth. In addition to these high prices, Mr. Smith mentioned the heavy burden of taxes on business and improvements. Activity in house building is also apparently decreasing and business generally would be greatly assisted by lowered costs of operation and of living, such as may confidently be expected to result from the exemption by-law.

REPORT AND RECOMMENDATION

After a painstaking and exhaustive study of the whole question, I have the honour to report to your Worship and Council that the property owners of Toronto may quite safely, and with great advantage to themselves and their city, vote “Yes” in favour of the Tax Exemption By-law.

All of which is respectfully submitted this 10th Day of December, 1923.

A. W. ROEBUCK,
Member of Special Committee on
Taxation appointed by Toronto
Municipal Council.

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